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SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 05/15/06

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(1) Poll on Koizumi cabinet, political parties

NIHON KEIZAI (Page 2) (Full)  
May 15, 2006

Questions & Answers

(Figures shown in percentage. Parentheses denote findings from the last survey in March.)

Q: Do you support the Koizumi cabinet?

Yes	49	(48)
No	39	(40)
Can't say (C/S) + don't know (D/K)	12	(12)

Q: Which political party do you support or like now?

Liberal Democratic Party (LDP)	44	(44)
Democratic Party of Japan (DPJ or Minshuto)	24	(19)
New Komeito (NK)	5	(3)
Japanese Communist Party (JCP)	2	(4)
Social Democratic Party (SDP or Shaminto)	2	(3)
People's New Party (PNP or Kokumin Shinto)	0	(0)
New Party Nippon (NPN or Shinto Nippon)	0	(0)
Other political parties	1	(1)

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None	18	(21)
C/S+D/K	5	(5)

Polling methodology: The survey was taken May 12-14 by Nikkei Research Inc. over the telephone on a random digit dialing (RDD) basis. For the survey, samples were chosen from among males and females, aged 20 and over, across the nation. A total of 1,499 households with one or more voters were sampled, and answers were obtained from 867 persons (57.8%).

(2) Poll on Constitution

ASAHI (Page 10) (Full)  
May 3, 2006

Questions & Answers

(Figures shown in percentage, rounded off. Bracketed figures denote proportions to all respondents. Parentheses denote the results of a previous survey conducted in April 2005 unless otherwise specified.)

Q: Which political party do you support now?

Liberal Democratic Party (LDP)	36
Democratic Party of Japan (DPJ or Minshuto)	15
New Komeito (NK)	3
Japanese Communist Party (JCP)	2
Social Democratic Party (SDP or Shaminto)	1
People's New Party (PNP or Kokumin Shinto)	0
New Party Nippon (NPN or Shinto Nippon)	0
Liberal League (LL or Jiyu Rengo)	0
Other political parties	1
None	37
No answer (N/A) + don't know (D/K)	5

Q: Are you aware of the Constitution in your daily life, or do you think about it? (One choice only)

Often	6	(6)
Sometimes	34	(37)
Not very often	43	(44)
Not at all	17	(12)

Other answers (O/A) + N/A            0            (1)

Q: How much do you know about the Constitution?

Very well	4
Somewhat	43
Little	52
O/A+N/A	1

Q: The Diet and political parties are debating the advisability of amending the Constitution. To what extent are you interested in the issue of constitutional revision? (One choice only)

Very interested	16	(14)
Somewhat interested	49	(51)
Not very interested	27	(27)
Not interested at all	7	(6)
O/A+N/A	1	(2)

Q: Article 9 in the Constitution consists of two paragraphs that declare Japan's war renunciation and its maintenance of no war

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potential. To what extent do you think this article has helped with Japan's peace and prosperity? (One choice only)

Very much	25
Somewhat	49
Not very much	18
Not at all	2
O/A+N/A	6

Q: The Constitution describes nothing about the Self-Defense Forces. The government, in its constitutional interpretation, has so far taken the position that the SDF does not fall under the status of "land, sea, and air forces, as well as other war potential" in Article 9-2. Do you think it was good?

Yes	42
No	40
O/A+N/A	18

Q: Do you think the Constitution should be amended to expressly stipulate the SDF's existence?

Yes	62
No	28
O/A+N/A	10

Q: (Only for those who answered "yes") What do you think is the best way to expressly stipulate the SDF's existence? (One choice only)

Rewrite Article 9-1 or Article9-2

	31	(19)
Leave Article 9's provisions intact and add a new provision		
	64	(40)
O/A+N/A	5	(3)

Q: (Only for those who answered "yes") Are you in favor of defining the SDF as a military entity?

Yes	38	(23)
No	54	(34)
O/A+N/A	8	(5)

Q: (Only for those who answered "no") What do you think should be done about the SDF? (One choice only)

Maintain its current status	66	(18)
Downscale	27	(8)
Abolish	4	(1)
O/A+N/A	3	(1)

Q: The Diet and political parties are debating problems about the right of collective self-defense over the Japan-US Security

Treaty and the SDF's overseas activities. The right of collective self-defense is that if and when an ally or its armed forces are attacked, Japan will regard the attack as an attack against Japan and will fight with the ally against the enemy, even though Japan is not attacked. The government's interpretation is that Japan has the right but is not allowed to use the right according to Article 9 in the Constitution. What do you think about the right of collective self-defense? (One choice only)

Japan should continue its prohibition against the right of

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collective self-defense	53
Japan should be allowed to use the right of collective self-defense	36
O/A+N/A	11

Q: What do you think should be done about the SDF's overseas activities from now on? (One choice only)

The SDF should not be engaged in any overseas activities

	11	(8)
--	----	-----

The SDF should be allowed to participate in United Nations peacekeeping operations like those in Cambodia

	46	(45)
--	----	------

The SDF should be allowed to help disputed countries like Iraq with their nation-rebuilding efforts

	22	(27)
--	----	------

The SDF should be allowed to use armed force if the SDF needs to do so in Japan's national interests

	15	(15)
--	----	------

O/A+N/A

	6	(5)
--	---	-----

Q: What do you think about amending Article 9 in the Constitution? (One choice only)

Leave both paragraphs intact	42
Rewrite the first paragraph only	9
Rewrite the second paragraph only	16
Rewrite both paragraphs	18
O/A+N/A	15

Q: Which opinion is closest to yours about the emperor system? (One choice only. Parentheses denote the results of a survey conducted in 2004.)

Define the emperor as Japan's head of state	4	(4)
The emperor should remain a symbol	84	(83)
The emperor system should be abolished	10	(10)
O/A+N/A	2	(3)

Q: Do you think the Constitution should be amended?

Yes	55	(56)
No	32	(33)
O/A+N/A	13	(11)

Q: (Only for those who answered "yes") Why? (One choice only)

Because new rights and systems should be incorporated	38
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(21)

Because it's better to incorporate more of the people's obligations

	17	(9)
--	----	-----

Because there are problems about Article 9

	9	(5)
--	---	-----

Because the Constitution has never been revised since its establishment

	13	(7)
--	----	-----

Because we want to create a new constitution of our own, instead of the current postwar constitution the US imposed on Japan

	21	(11)
--	----	------

O/A+N/A

	2	(2)
--	---	-----

Q: (Only for those who answered "yes") Do you think it is urgently necessary to amend the Constitution?

Yes	56	(31)
No	39	(21)
O/A+N/A	5	(3)

Q: (Only for those who answered "yes") Is that because you would like Japan to change substantially?

Yes	38	(21)
No	57	(31)
O/A+N/A	5	(3)

Q: (Only for those who answered "no") Why? (One choice only)

Because the Constitution helps guarantee freedom and rights	17	(5)
Because the Constitution has taken root in the nation	21	(10)
Because Article 9 may be rewritten	17	(6)
Because the people's obligations will likely be heavier	6	(2)
Because there's no need to revise the Constitution though it has some problems	23	(7)
O/A+N/A	6	(2)

Q: Amendments to the Constitution require the affirmative vote of a majority of all voters through a national referendum. However, Japan still does not have a law that stipulates procedures for it. What do you think about legislation for a national referendum? (One choice only)

It would be better to establish the law at an early date because it is necessary to go through such procedures	32
There's no need to establish the law because the Diet has yet to fully debate whether to revise the Constitution	53
The law should not be established because it will lead to constitutional revision	8
O/A+N/A	7

Q: Do you think it would be all right to let Dietmembers debate the issue of constitutional revision?

Yes	22
No	72
O/A+N/A	6

Q: Would you like to take part in the discussion of constitutional revision?

Yes	43
No	49
O/A+N/A	8

Polling methodology: The survey was conducted April 15-16 on a face-to-face basis along with a survey of public attitudes over war responsibility. A total of 3,000 persons were chosen from among the nation's voting population on a stratified two-stage random-sampling basis. Valid answers were obtained from 1,730 persons (58%). In the breakdown of respondents, males accounted for 47% and females at 53%.

(3) Government, ruling parties waiting to see how US congressman's concern expressed about prime minister's Yasukuni visit will develop; Some speculate Yasukuni issue likely to be major issue in the presidential election campaign this fall

ASAHI (Page 2) (Full)

May 14, 2006

A senior member of the US Congress has expressed concern about Prime Minister Koizumi's visits to Yasukuni Shrine. Japanese government and ruling coalition officials are taking this message quietly, with one aide to the prime minister remarking: "Only one person at present has spoken out." A senior Foreign Ministry official emphasized that the Bush administration has never

indicated any intention to meddle in the Yasukuni issue. In the ruling Liberal Democratic Party (LDP), as well, many take the view that it will not have an immediate effect on the Japan-US alliance. But some in the party have begun speculating that it will give impetus to the tendency of making the Yasukuni issue and Asia diplomacy major issues in the upcoming LDP presidential election campaign in September.

The congressional concern was revealed in a letter sent by Henry Hyde, chairman of the US House Committee on International Affairs to Speaker of the House of Representatives Dennis Hastert. The letter urged Prime Minister Koizumi to make clear he will not visit Yasukuni Shrine if he wishes to address the Congress during his planned visit to the United States in late June.

A Japanese government official gave this analysis yesterday: "Such a comment doesn't represent American public opinion. The relationship between President Bush and Prime Minister Koizumi is in good shape. The prime minister's speech before Congress could give rise to applause but it will never be something despised." So far, Koizumi has explained in his Diet replies: "The true intention of my shrine visits is understood among US government officials."

One foreign policy expert in the LDP yesterday commented: "The House speaker is unlikely to stand in the way of the prime minister's desire to address the Congress." Several Japanese government officials, pointing out that the prime minister's itinerary for his US tour has yet to be fixed, rejected as speculation the rumor that the Japanese government was sounding out the US government about the prime minister addressing the US Congress.

The number of Japan experts in the US critical of the prime minister's Yasukuni visits has been on the increase. Their primary concern is that the fallout from reactions in China and South Korea to such shrine visits may destabilize Asia. They fear that such visits could lead to conflict between Japan and the US over perceptions of the past war.

A senior Foreign Ministry official, however, said firmly: "The US government has no intention of poking its nose into the Yasukuni issue." LDP lawmakers who traveled to the US earlier this month said although White House and Department of State officials, as well as members of the Congress, all brought up the Yasukuni issue, they did so only because they thought "it would not be wise for Japan and China to heighten tensions between them."

However, former LDP Secretary General Koichi Kato said yesterday: "The logic of the so-called 'Koizumi diplomacy' is that having good relations with the US ensures good relations with other countries, but Koizumi now has been hit from behind by the US. He has made a diplomatic blunder."

Another LDP lawmaker remarked, "Just because other countries tell

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us to do so, we should change our stance: that trend will continue." He then added, "Because of this, the Yasukuni issue will likely be on the list of campaign issues in the LDP presidential race."

(4) Yasukuni issue: LDP's Koga, chairman of the bereaved families association, proposes giving consideration to separating Class-A war criminals from rest of war dead

TOKYO (Page 3) (Full)  
May 13, 2006

It was learned on May 12 that former Liberal Democratic Party (LDP) Secretary General Makoto Koga, who is also the chairman of the Nippon Izokukai or association of the bereaved families of the nation's war dead, has urged as a policy proposal for the LDP presidential election campaign in September that the separation of Class-A war criminals enshrined at Yasukuni Shrine be "subject to consideration." The reason for such would be in order to find

a breakthrough in Japan's relations with China and South Korea that have been strained by Prime Minister Junichiro Koizumi's visits to that shrine. Yasukuni Shrine has strongly rejected such a separation. Views within the bereaved families association also are split into pros and con, but given Koga's strong influence in the association, his bringing up the issue of separation is likely to spark debate within and outside the organization.

The proposal will be vetted during the compilation of a policy platform in June by the Niwa-Koga faction, of which Koga is co-chairman. Although Koga, as chairman of the Izokukai, has taken a position of urging the prime minister to pay homage at Yasukuni, the proposal is generally critical of such visits to Yasukuni by Prime Minister Koizumi. It points out: "Relations with China have become strained to the extent that summit exchanges have been frozen, and a sense that Japan's diplomacy has reached an impasse is rapidly building."

In addition, the proposal clearly states: "Views are split within Japan and abroad over whether all the souls of the war dead should be made subject (to enshrinement (at Yasukuni)). In order to make it possible for many more people, including foreigners, to pay homage (to the war dead at Yasukuni), the possibility of separating some of the souls of those who did not die in battle should be made subject of consideration."

Regarding the treatment of Class-A war criminals, the Izokukai takes the position based on the principle of the separation of state and religion that: "this is a judgment that should be made by Yasukuni Shrine, and politics should not intervene." However, China and the Republic of Korea are criticizing the Prime Minister's Yasukuni visits because Class-A war criminals are jointly enshrined there. Koga's view is that the cause of China and South Korea's objections must be removed.

(5) Cabinet approval for US force realignment plans: Prime Minister Koizumi: "No need to hurry. It would be fine if cabinet approval obtained by late June"

TOKYO SHIMBUN (Page 2) (Full)  
May 13, 2006

Prime Minister Junichiro Koizumi met late yesterday with Defense

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Agency (JDA) Director-General Fukushima Nukaga and senior ruling coalition members to exchange views on plans for the realignment of US forces in Japan. Although the government is gearing up to obtain by early next week if possible cabinet approval for matters relating to US force realignment plan, Koizumi said, "There's no need to hurry. It would be fine if cabinet approval were obtained by the time of the Japan-US summit meeting (slated for late June) is held."

Cabinet approval will confirm the government's policy for implementing the realignment plan contained in the final report agreed to by Japan and the United States. In the meeting yesterday, the participants agreed to stipulate in the cabinet decision the government's intention to enhance efforts to develop the northern part of Okinawa Prefecture, including Nago City, where the US Marine Corps' Futenma Air Station is to be relocated from Ginowan City.

(6) US Consul General Reich: Rejects possibility of heliport construction at Futenma alternate facility; MCAS Futenma will be in use until 2014

RYUKYU SHIMPO (Page 1) (Abridged)  
May 12, 2006

With the signing of a final agreement between Japan and the United States on the realignment of US forces in Japan, Thomas Reich, consul general at the US Consulate in Okinawa, responded to an interview request from this newspaper. In it, he denied the possibility of implementing a plan for a temporary heliport, as

requested of the central government by Okinawa Prefecture. Reich noted: "The US and Japan agreed to a plan that has a V-shaped runway; it does not include a heliport." He also stressed that until the runway is completed by 2014, as planned, Futenma Air Station would continue to be used. "The agreement reached between the US and Japanese governments on finding a means to eliminate the danger of Futenma involves the construction of a new alternate facility as quickly as possible." This is the first time for the US government to formally reject the construction of a heliport (at the Nago site).

He also gave his impression of the memorandum of confirmation signed by Okinawa Governor Keiichi Inamine and Defense Agency Director General Fukushima Nukaga: "The governor signaled that there has been visible progress in the reduction of the burden on Okinawa and that he is cooperating with the central government. This is good news for the people of Okinawa, don't you think?"

Answering the objections of the City of Nago to the length of the runway on the planned new alternate facility for Futenma, he stated: "There will be no change in the length of the runway; the length of the runway must be 1,800 meters."

Asked about the elimination of the danger of Futenma Air Station prior to the completion of the alternate facility, Reich stressed: "We realize it will take time (until the alternate facility is built). During that time, although various aircraft will continue to fly over Futenma, they will fly overhead, observing the same safety measures as before. The best way to end the flights is to complete the alternate facility quickly."

(7) UN contributions: Government may defer paying contributions, determined to press Annan for breakthrough in reform plans

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SANKEI (Page 3) (Abridged slightly)  
May 15, 2006

Japan is likely to put off its financial contributions to the United Nations in the event talks on the scale of assessment of member states for the period starting 2007 fail to reach a conclusion before the end of this year. UN reform plans produced by a number of countries, such as Japan and the United States, have drawn objections from China and Russia. There is a possibility that the UN Committee on Contributions will begin talks in June before a decision is made on reform plans. The government plans to urge UN Secretary General Kofi Annan, who is scheduled to arrive in Japan tomorrow, to display strong leadership in producing a conclusion at the upcoming talks.

This year the dues of member states will be assessed, something that occurs every three years. Japan presented to the UN General Assembly Fifth Committee a plan to set the floor for permanent UN Security Council members at 3% or 5% of the total. The United States has also come up with a scheme to determine each country's share based on GNP calculated according to purchasing power parity. Altogether, eight reform plans have been tabled.

Currently, Japan's share is 19.5%, the second largest following America's 22.0%. Japan's share is greater than the remaining four permanent UNSC -- Britain, France, China, and Russia -- combined (15.3%).

Japan's bid for a permanent UNSC seat last year ended in failure due partly to China's maneuvering. There are growing calls in the government for permanent members with special privileges to make financial contributions befitting their status. Based on this view, Japan presented a plan to markedly increase the shares of China and Russia.

During the period between 1971 and 1979, China contributed 4.0% to 5.5% of the total, and the Soviet Union 11.33% to 14.18%. "In view of their past contributions, there is every reason to seek greater contributions of China and Russia," a Foreign Ministry source said.

It is customary for the Fifth Committee to pass a resolution to order the Contributions Committee to calculate member states' contributions based on reform plans presented by member countries and for the Contributions Committee to report the results back to the Fifth Committee before discussing calculation methods. But the Fifth Committee has been unable to pass a resolution due to strong opposition from China and Russia.

The Contributions Committee will meet in June even if the Fifth Committee fails to pass a resolution. "The Fifth Committee has never failed to pass a resolution; how the Contributions Committee will conduct discussion is totally unpredictable," a UN source noted.

Usually the UN General Assembly begins discussion on specific ways to reform the scale of assessment of member states in late September following the Fifth Committee's discussion of calculation methods to reach a conclusion in late December. Customarily a decision is made unanimously on new shares of financial contributions of member states. Fiscal 2007 may roll in before a decision is made on the new scale of assessment of

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member states.

In such a case, the government will have to defer paying Japan's financial contributions.

Current shares and projected shares (in %)

	Current	Floor at 3%	Floor at 5%	US plan
Japan	19.5	15.7	14.8	7.2
US	22.0	22.0	22.0	21.5
UK	6.1	6.6	6.2	3.5
France	6.0	6.1	5.8	3.3
China	2.1	3.0	5.0	13.0
Russia	1.1	3.0	5.0	2.5

(8) Gov't mulls expanding economic aid to Iraq

NIHON KEIZAI (Page 2) (Abridged)  
May 13, 2006

Japan will prepare an additional aid package for Iraq, which will shortly launch a permanent government. The government has already announced an Iraq aid plan that features yen loans totaling approximately 76.5 billion yen. In addition, the government is also considering another package of financial aid to Iraq. Prime Minister Junichiro Koizumi will call Iraq's Prime Minister-designate Maliki after his cabinet is inaugurated to tell him about Japan's new aid plan. Japan currently deploys Ground Self-Defense Force troops in Iraq. After their pullout of Iraq, Japan will instead expand the scope of Air Self-Defense Force activities in that country. The ASDF will therefore strengthen the equipment of its transport planes. The government is also planning to send a special envoy to Iraq, if the political situation in that country permits, in order to find out what kind of assistance the Iraqi government needs.

Japan has suspended its yen loans to Iraq since 1985. In February, however, the government announced a plan to resume its loan aid to Iraq. In concrete terms, the government has pledged to cooperate on three projects, such as renovating berth facilities at the southern Iraqi port of Umm Qasr and irrigating land around the country. After the Iraqi government takes office, Koizumi will tell Iraq that Japan will consider additional aid to Iraq for its reconstruction. The prime minister is expected to show a plan to expand Japan's financial assistance, envisioning the pullout of GSDF troops.

The ASDF, currently stationing its troops at Ali Al Salem Air Base in Kuwait, airlifts supplies to Taril Airport for the detachment of GSDF troops deployed in the southern Iraqi city of Samawah. The government has plans to expand the scope of ASDF airlift missions as far as Baghdad. The ASDF will equip its C-130

transports with a traffic collision avoidance system, or TCAS for short. The skies over Baghdad are overcrowded with US military and multinational force helicopters, so the government deemed it necessary to equip ASDF C-130s with TCAS. The government would like to recall the GSDF troops along with the pullout of Samawah-based British and Australian security troops.

(9) Government to establish "highly skilled workers" framework for foreign workers; Ministries, agencies also looking for ways to stem expansion

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ASAHI (Page 2) (Abridged)  
May 15, 2006

The government has begun considering adding a "highly skilled worker" framework to the general manufacturing sector for accepting more foreign workers. The aim is to expand the existing framework while stemming the growing acceptance of foreign workers to a certain extent. The government plans to incorporate the new category in the "big-boned policy guidelines" to be produced in June by the Council on Economic and Fiscal Policy (CEFP). Fierce maneuvering is likely to occur between the CEFP private-sector members eager to expand the framework for foreign workers and government offices reluctant to open up the door any further.

The CEFP discussed the approach as a means to increase Japan's international competitiveness. To reflect government offices' view, senior vice ministers of concerned offices, such as the Health, Labor and Welfare Ministry and the Justice Ministry, also discussed the matter since March and confirmed the policy course in April not to accept unskilled foreign workers. In the May 11 meeting, they discussed the definition and the scope of "highly skilled workers," as proposed by the Economy, Trade and Industry, and decided to study sectors that can accept such workers.

The government has granted residence status only to aliens with special skills, such as chefs who cook foreign foods. The category of "highly skilled workers" will expand residence status to include the general manufacturing sector.

The economic community has been eager to accept more foreign workers, while ministries and agencies have been reluctant to do so for fear of an adverse effect on employment and security.

The four private sector CEFP members -- two business leaders and two economists -- insisted on the need to accept more foreign workers for enhancing Japan's international competitiveness. They are aiming for relaxed requirements for residence status and expanded acceptance of foreign workers outside traditional areas, such as nursing care.

The Health, Labor and Welfare Ministry opposed expanding the framework for accepting nursing care providers. The four private-sector CEFP members proposed getting help from foreign workers to make up for declining labor force. Health, Labor and Welfare Minister Jiro Kawasaki rebutted, "We should first consider employing a large number of young Japanese men and women (out of work)."

Prime Minister Junichiro Koizumi, chair of the CEFP, holds a positive view about accepting more foreign workers, but he is also reluctant to open the door fully.

(10) Yuko Kawamoto, professor at Waseda University Graduate School, calls for reestablishment of financial discipline in run-up to removal of near-zero-interest-rate policy; Lessons Japanese economy has learned from the past to be brought into question

SANKEI (Page 11) (Full)  
May 12, 2006

Meaning of normalization should be understood

The Bank of Japan (BOJ), the watchdog of the financial market, is expected to change its present zero-interest-rate policy by the early fall.

The zero-interest-rate policy is intended to settle the non-performing loan issue that has stemmed from the bursting of the bubble economy and to prop up the economic slump. It has been said that this policy was an experiment unprecedented in the world's financial history. Though it was an emergency measure the government has unavoidably adopted, because economic stimulation measures by means of fiscal outlays were not in the cards, its after effects have been of concern.

For instance, a near-zero interest rate means that borrowing money costs virtually nothing, and the burden of interest payments is only minimal. Under such a policy, companies in bad shape and heavily indebted companies tend to be preserved and protected. Banks tend to slacken their efforts to monitor borrowers' business management and urge them to become more efficient. The same holds true of the management of the state. The government can afford to leave its fiscal deficit unattended, taking advantage of the situation in which it can borrow money (issuing government bonds) at low interest rates.

It has now become possible for the BOJ to shift from the near-zero-interest policy, which has such unsound elements, because the Japanese economy is about to emerge from its long-standing slump. What is to happen is the normalization of financial policy as a result of the recovery of the financial services sector. This may basically be a good thing.

However, being long accustomed to the zero interest rate and the fall of the prices of such assets as stocks and real estate, the Japanese economy has had no opportunities to experience the works of financial functions. All economic entities must understand what the normalization of interest rate policy means and be prepared for it. The key phrase is the reestablishment of financial discipline.

Banks still strapped with excessively competitive structure

If the zero-interest rate policy is removed, the market will regain its function to discover appropriate prices. Should that occur, potential risks of business undertakings would be assessed and priced. Low interest rates will be set for business with high potential income and future prospects, and rather high interest rates would be imposed on risky projects, discounting potential risks. The financial system will thus display its original function of bringing about a favorable cycle for the efficient management of the economy.

On the other hand, a rise in interest rates would increase the burden of economic entities with a large amount of debts. Medium to small-size businesses' ratio of borrowings to capital is twice as much as that of leading companies. The prices of government bonds, which banks hold in bulk, may fall, causing latent losses to them.

The government's debts are extremely huge. They are twice as much as those held by British, German or US governments in ratio to gross domestic production (GDP). Raising interest rates would be hard now when the primary balance is in the red and the nation's debts are continuing to snowball. Both the government and medium

to small-size businesses must speed up efforts to make their balance sheets sound and reestablish discipline.

Some are expected to oppose the move to remove the zero-interest-rate policy, citing such reasons as that the burden of interest will become heavy for medium to small-size businesses, that the government's fiscal reconstruction process will become slow or

that it will usher in a strong yen.

However, if we ride on the currents of such an argument, it will mean that we have learned nothing from the past. To begin with, some have even pointed out that the delay in the raising of interest rates for fear of ushering in a strong yen caused the excessive liquidity that gave rise to the bubble economy in the 1990s.

It is not that higher interest rates are more favorable for the economy. How to steer financial policy and keep a good balance are always important. As the economy picks up, many projects are now about to be implemented. At such a time, there will appear a mountain of non-performing loans, if there is no financial discipline.

As a matter of fact, Japan's banking sector is still strapped with excessively competitive structure, and efforts to set interest rates on a par with potential risks involved in business undertakings has made little progress. Cases of regional banks can be well imagined. Even a proposal has recently been made to inject public money into one of those banks.

#### Risk of expansion without disciplines

In order to normalize the financial services system, banks need to speed up their efforts to pay off the public money they have received. At present, leading banks still have to repay 6 trillion yen. Unless this money is paid back to the state coffers, freedom of managing the economy would be constrained. Fortunately, it has been reported that mega banks are expected to complete repayments before the end of fiscal 2006. In 30 prefectures out of 47, bank lending in the term ending March this year exceeded the previous year's level. Banks are thus receiving a boost, but they should not neglect efforts to reform their profit-making structure.

The greatest challenge in reestablishing financial discipline is how to handle privatized postal services companies. The objective of postal savings was to correct the distorted cycle of state funds. Privatized postal services companies will be run by managers from the private sector, while the companies will continue to be protected by the government with their entire stocks held by it for the time being. It will take a decade before they are completely privatized.

Differences between the public and private sectors are whether they can continue business without regard to profitability. Chances are high that as long as privatized postal services companies remain under government control and protection, they might act contrary to rational economic activities. For instance, they might excessively extend loans to highly risky businesses. What would happen, if Japan's private banks were involved in such competition? The financial services industry is struggling to emerge from the non-performing loan problem. An expansion of the privatized postal services companies without discipline at such a

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time would pose a major risk to the Japanese economy.

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